MEETING SUMMARY NOTES

Finance Work Group

April 8, 2003
3:30 p.m., Room 113, County-City Bldg.

MEMBERS: Present - Brad Korell, Lowell Berg, Keith Brown, Mark Hesser, Dan Marvin, Richard Meginnis, Kent Seacrest, Tom Schleich, Terry Werner, Otis Young, Larry Zink, Allan Abbott (nonvoting)
Absent - Jim Budde, Ron Ecklund, Bob Hampton, Connie Jensen, Polly McMullen, Tim Thietje, Roger Severin,

OTHERS: Kent Morgan, Marvin Krout, Lauren Wismer, Bill Giovanni, Don Herz, Margaret Remmenga, Hallie Salem, Michele Abendroth

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Mr. Korell called the meeting to order at 3:36 p.m. and welcomed those present.

2. Public Comment Period

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

3. Street Financing Options Matrix

Mr. Korell asked the group if they agreed with the pre-assigned ratings for the evaluation criteria of *deductibility*, *progressive tax/fee*, and *bondable*. Mr. Brown stated that he did not agree with the rating of 1, which means "no," for deductibility under highway allocation bonds and noted that he believes it should be higher.

Mr. Morgan briefly explained the variability review for the score sheet which indicated where there was general agreement or variability.

Discussion then centered on the group's thoughts on viable options for street financing. Mr. Zink commented that he believes that the group should pursue the first four columns, G.O. Bonds, Highway Allocation Bonds, City Wheel Tax and Occupation Tax on Fuels, as they are currently authorized. Mr. Korell stated that we can have short-term and long-term solutions, but ultimately we have to raise more money. Mr. Brown stated that he believes the group should look at G.O. bonds, Highway Allocation Bonds, and City Wheel Tax as good, quick solutions. He added that he believes that the occupation tax on fuels could have a tendency to create problems for the general economy. He also noted that for the future, we need to look at the City wage tax.

Mr. Hesser stated that he would like to see the combined use of G.O. bonds (to raise more money) and highway allocation bonds for two purposes: (1) to use new money from an occupation fuel tax to generate additional income that we can then use as an income stream for the highway allocation bonds; and (2) using the highway allocation bonds in some of our existing revenue streams to get more money up front.

Mr. Korell stated that a 5% increase in the City's portion of the current property tax would bring in about $22 million. This money can be used for paying off bonds. Then he asked Mr. Hesser what he believes the threshold is for increasing property taxes. Mr. Hesser stated that he believes we need to bring in $100 million of G.O. bonds. Mr. Korell noted that would be a 20% increase in the current property tax, which would be approximately a $68 annual increase on a $110,000 home. Mr. Hesser then asked how much a one-cent occupation gas tax would raise. Mr. Abbott stated that a five-cent increase would raise approximately $7.5 million per year which translates into $71 million on a 20 year bond.

Mr. Marvin stated that he agrees with Mr. Brown regarding the occupation tax on fuel in that there is a point where you cannot raise the price of fuel without noticing a difference -- but if the amount is so low, is it even worth considering. Mr. Hesser stated that he feels the gas tax helps sell the G.O. bond increase because we can indicate that people outside Lincoln will help to pay for the streets.

Mr. Zink stated that we need to be careful when considering the amount of increase in taxes that people will vote for. Mr. Brown stated that if you get to a too high level, the rating agencies are going to look at that and question if we can really deal with that amount of debt.

Mr. Korell then asked Mr. Giovanni to join the group's discussion. Mr. Korell asked Mr. Giovanni if adding $100 million in General Obligation bonds made him nervous relative to financing schools, libraries, and storm sewers among others. Mr. Giovanni stated that it does not make him nervous at all. The City has very low debt ratios and there is a low percentage of property taxes that are being allocated to debt service. Mr. Korell asked about $200 million. Mr. Giovanni provided an example of when they took $100 million for the schools to the rating agencies -- it was a non-issue because the debt ratios are low, so he would venture to guess that $200 million would not be an issue. He pointed out that the bonds would not be issued all at once, but rather over time, and that the valuations and tax basis would grow, so the ratio probably would not change substantially.

Mr. Korell said that if we want a 20% increase in the City's portion of property taxes, we would be looking at a 3.5% overall increase for the average home of $110,000. Mr. Meginnis asked whether or not this had to be done in one bond issue if it is passed. Mr. Giovanni replied that they did not.

Mr. Korell asked the group what they thought the chances were in getting a $100 million G.O. bond passed. Mr. Young replied that he believes it is feasible. Mr. Berg stated that he felt the changes were 50/50, but also depended on world events. Mr. Hesser stated that he believes that it is feasible. Mr. Giovanni stated that it is hard to say, but in 25 years, we have never put a bond issue up to the voters for street improvements. So there is no history, but there has been a higher percentage of bond issues that have passed. Mr. Meginnis stated that he believes that it is also feasible and if you go before the voters with an educated platform, they might vote for it. Many of the voters believe that their property taxes go towards streets, and they would need to be educated that this is not true.

Mr. Marvin stated that his concern is what to do if the bond issue does not pass. He also does not want to put the schools at a disadvantage. However, he feels that it is efficient, progressive, and quick. His other concern is how it is sold, as sometimes when you are in a rush, the true story gets lost. Mr. Schleich stated that it depends on many variables and factors such as the property tax base, the economy, interest rates, and the time line. He also believes that there would have to be marketing that includes a broader base of other sources.

Mr. Zink stated that in terms of the probability of passing, it in an upstream swim. It is important to present the voters with an overall package of how we are dealing with this and that there is something in there for them. He added that he does not believe that we can deal with this problem without using this source. He also shares Mr. Marvin's concern about the impact on schools.

Mr. Brown stated that there are many ways to look at this. It should also include highway allocation bonds. You also have to look at the economy. The other concern is the marketing of this. The point that Mr. Meginnis made regarding property taxes not including street maintenance is significant in that most people would be astonished to know that. Mr. Werner stated that from an elected official's perspective, he believes there is a consensus on the Council that raising property taxes is the most fair, and doing it through G.O. bonds takes some responsibility off elected officials, as no one would vote to raise property taxes. He stated that he prefers this source. The economy is a factor and also how it is marketed. Mr. Abbott stated that he believes that we have to show that we are not just putting in a property tax, which means an increase elsewhere as well. The important thing to remember is which groups are going to be against this bond proposal, as the last couple bond issues failed because there was strong opposition by specific groups.

Mr. Brown asked if there is a logical distinction between revenue sources for schools and the City. Mr. Wismer stated that schools are more limited in their sources as their sources are state aid, local property taxes and some have federal sources. There are levy limitations for every political subdivisions.

Mr. Seacrest stated that he believes it is important to package it to identify the deferred projects that could or should be done. He added that we need to show that we care about smart growth and our environs being protected and enhanced.

Mr. Korell continued the discussion with the City wheel tax which is currently is $39. If we added $15, increasing it to $54, that would generate $3 million per year and could raise $26-$30 million in bonding capacity. He then asked how many believed that this source is a good idea. Mr. Marvin questioned if the $15 raise would occur over time. Mr. Korell stated that the analysis was built on a $15 raise all at once. Mr. Hesser stated that there has been a very vocal constituency speaking out against this source. Mr. Werner stated that he believes it could be an option, but you would have to increase it over time.

The next source discussed was the Occupation Tax on Vehicular Fuel. The analysis showed that an increase of 5 cents per gallon would raise about $7.5 million per year, and bonding capacity would be approximately $80-$85 million. Mr. Hesser and Mr. Young stated that they like this source. Mr. Berg stated that he likes it, but believes it should be used in a mix.

Mr. Giovanni stated that if $100 million brings you current, then your bonding needs on the pay-as-go forward basis are less critical. You can move projects up, but you are not trying to solve for some big shortfall. There is $29 million from the existing wheel tax, the existing highway allocation money and a new occupation tax. He then asked if you have $30 million coming in from all sources, how much are you short. Mr. Abbott stated that we are short $20 per year for the 12 year period. Mr. Marvin added that you can move projects around. He also noted that there is $700 million being spent over 12 years with $500 million coming in -- so the gap is $200 million, but if you take $100 million off, you are down to $100 million. Mr. Abbott stated that although we are short $100 million over 12 years, most of it is in the first 6 years and it is not set up to go year by year. If you did it that way, projects would be delayed. Mr. Abbott stated that the $100 million would get us through the first 3 years, so then in year 4 you would need to issue $150 million in bonds. Mr. Marvin stated that he believes that Mr. Giovanni is stating that you can shift some of those dollars around, so in effect, you are going to borrow in years 3, 4, and 5 revenue in 7, 8 and 9. Mr. Abbott reminded him that you will still need the same amount of money in the next 12 years.

Returning to the discussion regarding occupation fuel tax, Mr. Hesser stated that he is in favor of this source. Mr. Meginnis stated that he would be in favor of it, but has some questions on the implementation of it. Mr. Marvin stated that with the $100 million in G.O. bonds, $1.5 million per year from the wheel tax, and $7.5 million per year from the fuel tax, this would bring in $108 million over 12 years, and it seems this would bring us back to a pay as you go basis. Mr. Schleich stated that he feels this source is okay. Mr. Seacrest asked if it is legal to put a consumer price index on the wheel tax and fuel tax rate, so that we authorize it for a period of years. He stated that he feels that it is worth looking at because that is how you set the framework for the next 12 years.

Mr. Brown stated that he has mixed feelings about this source primarily because of the backlash that could occur. Mr. Werner stated that he feels it is a good mix with other sources, but added that doing a 5 cent increase from the start is going to be difficult. Mr. Giovanni stated that he believes that you have the opportunity to phase in both of the taxes. Mr. Marvin commented that he believes there is some threshold with the price of gas. Mr. Werner stated that he feels that the same is true of the wheel tax, as most people own 3 or 4 vehicles, so it is really an increase of $45-$60.

Mr. Korell then questioned the group on their thoughts about the fallback position if the G.O. bond does not pass. Mr. Marvin suggested trying the G.O. bond issue again, possibly in a few years. Mr. Berg suggested trying to pursue an increase in sales tax or to implement a City wage tax.

Mr. Korell asked how many in the group would support the funding strategy as identified previously, namely $100 million in G.O. bonds, a $15 increase in the wheel tax, which raises $3 million annually and has a bonding capacity of $15-$20 million, and a fuel occupation tax would raise $7.5 million annually and has a bonding capacity of $80 million.

Mr. Werner commented that impact fees should be shown as part of the solution. The group asked that some modeling figures be done on phasing in the taxes. Mr. Brown questioned if the fallback solutions would be included as part of this recommendation. He stated that in terms of marketing, he believes it is important because people will begin to think about how these potential solutions will affect them. Mr. Korell stated that he feels it is important to include the fallback solutions. He then posed the question on whether the group members support the funding strategy including the fallback solutions. The preferred fallback strategy was to attempt to gain voter approval for the G.O. bonds even if they were failed the first time, and to also seek approval from the Unicameral for a local option sales tax to support streets and highways. All work group members in attendance expressed their support of this strategy.

Mr. Korell stated that they would prepare guiding principles for their review prior to the next meeting. The next meeting will focus on parks and storm sewers.

Mr. Korell adjourned the meeting at 5:15 p.m.

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